

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7652

Petition of Public Service Company of New Hampshire for approval of: (1) the Issuance of up to \$500 Million in Long-term Debt Securities; (2) the Mortgaging of Property; (3) Execution of Interest Rate Transactions; and (4) Long-term borrowing pursuant to an Unsecured Revolving Credit Agreement)
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Order entered: 8/27/2010

I. INTRODUCTION

On June 25, 2010, Public Service Company of New Hampshire ("PSNH" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108 to: (i) issue up to \$600 million in long-term debt securities through December 31, 2012 (the "Financing Period"); (ii) mortgage substantially all of its property under its First Mortgage Indenture; (iii) enter into interest-rate transactions associated with the proposed issuance of long-term debt; and (iv) enter into long-term borrowings pursuant to an unsecured Revolving Credit Agreement. The Petition was supported by the prefiled testimony of Susan B. Weber, Assistant Treasurer-Finance of Northeast Utilities Service Company ("NUSCO") and PSNH, subsidiaries of Northeast Utilities ("NU"), and by accompanying exhibits.

On August 20, 2010, the Vermont Department of Public Service ("Department") filed its recommendation concerning the Petition informing the Board that it believes that the issuance of long-term debt as set forth in the amended Petition (see below) is consistent with the general good of the state, and recommends approval of the amended Petition without a hearing.

On August 24, 2010, the Department also filed its Determination Under 30 V.S.A. §202(f) to the Board, finding that the issuance of long-term debt as set forth in the amended Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On August 11, 2010, PSNH filed a motion to amend the Petition pursuant to a recent ruling by the New Hampshire Public Utilities Commission ("Commission") issued in a related proceeding. In its ruling, the Commission changed the long-term debt component of PSNH's capital structure from 51.17% to 45.73%, thus reducing the requested long-term debt financing by between \$40 million and \$50 million. In addition, PSNH plans on reducing its long-term debt by an additional \$50 million by incurring higher short-term debt during the Financing Period. As a result, PSNH's amended financing request before the Board is for \$500 million ("the Bonds"). PSNH's motion was accompanied by the amended direct testimony of Susan B. Weber. Based on the Company's amended filing of August 11, and noting no objection from the Department in its filing of August 20, I find the requested modification reasonable and hereby grant PSNH's motion to amend the Petition.

I have reviewed the Amended Petition, the supporting testimony, and accompanying documents. I conclude that approval of PSNH's Amended Petition pursuant to 30 V.S.A. § 108 is appropriate and that such approval may occur without hearing. Based upon the evidence of record, testimony, and exhibits presented in this docket, and the Department's filings of August 20 and 24, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. PSNH is a public utility corporation duly organized and existing under the laws of the State of New Hampshire, registered to do business in the State of Vermont, and engaged in the generation, transmission and sale of electric energy within the State of New Hampshire. PSNH owns and operates certain property in Vermont consisting of a 1.1 MW hydroelectric generating plant in Canaan, Vermont, a 34.5 kV transmission line which connects the Canaan plant to the New Hampshire electric system, nine miles of 115 kV transmission line that pass through Waterford and Concord, Vermont, but with no interconnection within Vermont, and a small amount of property in Wilmington, Vermont. Amended Petition at 1 and App. A.

2. The Company proposes to: (i) issue the Bonds in an aggregate principal amount of up to \$500 million through December 31, 2012; (ii) mortgage substantially all of its property under its First Mortgage Indenture; (iii) potentially enter into an interest rate transaction in connection

with the Bonds; and (iv) enter into long-term borrowings pursuant to an unsecured Revolving Credit Agreement. Amended Petition at 1-2.

3. The Bonds would be issued in multiple series with maturities ranging from one to forty years. The Bonds would be in the form of first mortgage bonds, debt secured by first mortgage bonds, or unsecured notes, and would carry either a fixed or floating interest rate; and would be sold to either retail investors or institutional investors and distributed in either the public or private markets. The Bonds would also be issued in the form of advances from PSNH's parent, NU, or issued in the form of one or more bank loans pursuant to a new unsecured Revolving Credit Agreement.¹ The interest rate on the Bonds will not exceed a rate equal to the applicable fixed rate index (applicable Treasury Bond) or floating interest rate index (London Inter-bank Offer Rate or "LIBOR") plus a credit spread of up to 400 basis points (4.00%). The exact financing structure, terms, conditions, amount, documentation, and interest rate will be determined at the time of issuance depending on prevailing market conditions. Amended Petition at 2 and App. B; Weber amended pf. at 4-6.

4. The proceeds of the Bonds would be used for refinancing the Company's short-term debt which includes previous financing for capital expenditures for transmission, distribution, generation, and working capital. Weber amended pf. at 5.

5. PSNH's senior secured debt is currently rated BBB+ by Standard & Poors, A3 by Moody's Investors Service, and BBB+ by Fitch Ratings. The Company anticipates that these ratings would remain unchanged after the issuance of the Bonds. Weber amended pf. at 8.

6. PSNH projects that it will access the markets in the first quarter of 2011 for approximately \$210 million and the first quarter of 2012 for approximately \$225 million, for a total issuance of approximately \$435 million. The Company is requesting authority to issue up to \$500 million to provide flexibility should financing needs increase and to allow the Company

1. PSNH is party to a revolving credit facility with several banks under which it can borrow up to \$100 million on a short-term basis, or, subject to the Board's approval, on a long-term basis. Weber pf. at 17.

to issue index-eligible debt² if market conditions warrant such an issuance. Weber amended pf. at 3 and 7.

7. PSNH also proposes to have the option of entering into an interest-rate swap or lock to manage interest-rate risk associated with the proposed issuance of the Bonds. There are several instruments to chose from and the Company is currently considering either a Treasury Lock³ or a Forward-starting Swap.⁴ By utilizing one of these hedging instruments, PSNH would be able to manage the risk of rising interest rates with respect to the proposed debt issuances. The decision whether or not to implement this strategy would depend on actual market conditions at the time of issuance.⁵ Weber pf. at 13-16.

8. The Company is party to an unsecured Revolving Credit Agreement with a number of banks pursuant to which PSNH can borrow up to a maximum credit amount of \$100 million on a short-term basis, or, with the Board's approval, on a long-term basis if needed. The Company seeks authority from the Board to have the flexibility to borrow under this facility on a long-term basis. Any long-term borrowing under the Revolving Credit Agreement would be available up to the Company's unutilized credit limit outstanding and subject to the terms and conditions of the agreement.⁶ Weber pf. at 18-19.

2. Index-eligible debt involves transactions in amounts of \$250 million or greater that typically result in lower interest rates. To complete two index-eligible transactions during the Financing Period, \$500 million of authority would be necessary even though PSNH's current forecast is for two issuances totaling \$435 million. Weber amended pf. at 3.

3. In the event of a rising interest rate environment prior to issuance, this instrument is used to hedge against potential increases in the U.S. Treasury rate portion of the coupon by locking the rate at the then current Treasury rate index. Weber pf. at 14.

4. Functions similarly to the Treasury Rate Lock except that the hedge is based on expected changes in the U.S. LIBOR swap market vs. the applicable Treasury rate. *Id.*

5. The Board previously authorized the use of interest-rate locks by PSNH in Docket No. 7510, Order of 5/8/09 at 5, in connection with a \$150 million debt issuance.

6. The current unsecured Revolving Credit Agreement is set to expire on November 6, 2010, and only allows for short-term borrowing. PSNH expects to replace the existing agreement with a new Revolving Credit Agreement and seeks Board authority to borrow long-term, if needed, under this new agreement. Weber pf. at 18.

III. DISCUSSION & CONCLUSION

Based upon the findings and the evidence in the record, I find that PSNH's proposal to issue up to \$500 million in aggregate long-term debt through December 31, 2012, to mortgage substantially all of its property under its First Mortgage Indenture, to utilize interest-rate hedges in the form of interest-rate locks or swaps, and to enter into long-term borrowings pursuant to its unsecured Revolving Credit Agreement, as described in the Amended Petition, will be consistent with the general good of the State. I therefore recommend that the Board approve the Amended Petition and authorize the requested transactions as described in the findings above.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

Dated at Montpelier, Vermont this 27th day of August, 2010.

s/ Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The Board consents to the issuance by Public Service Company of New Hampshire ("PSNH") of long-term debt securities in a maximum aggregate amount up to \$500 million, to mortgage and pledge its assets, to utilize interest-rate transactions, and to enter into long-term borrowings under its Revolving Credit Agreement, as set forth in the findings, above.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that PSNH may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. PSNH shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Upon request, PSNH shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 27th day of August, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: August 27, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.